

Revised

ILLINOIS POWER COMPANY

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 01-0701

REBUTTAL TESTIMONY OF KEVIN D. SHIPP

JULY 31, 2002

TABLE OF CONTENTS

EXHIBIT NO.	TITLE	PAGE NO.
3.3	REBUTTAL TESTIMONY OF KEVIN D. SHIPP	1 - 28
	I. Introduction	1
	II. Purpose and Scope	1 - 2
	III. General Concern over Storage Operations	2 - 4
	IV. Shanghai Storage Field De-Rate	5 - 15
	V. IP's Commitment to Storage	15 - 22
	VI. Capital and O&M Expenditures	23 - 25
	VII. Hillsboro Incident	25 - 26
	VIII. Conclusions	27 - 28
3.4	Project Listing	1 - 2
3.5	Capital Expenditures	1

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**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 01-0701**

**REBUTTAL TESTIMONY OF KEVIN D. SHIPP**

1 **I. Introduction**

2 1. Q. Please state your name, business address and present position.

3 A. Kevin D. Shipp, 500 South 27<sup>th</sup> Street, Decatur, Illinois, 62521. I am the  
4 Director of Gas Supply for the Energy Supply Management group  
5 (“ESM”) for Illinois Power Company (“Illinois Power”, “IP” or the  
6 “Company”).

7 2. Q. Have you previously submitted testimony in this proceeding?

8 A. Yes. On April 3<sup>rd</sup>, I submitted IP Exhibits 3.1 through 3.3.

9 3. Q. What are your responsibilities in your present position?

10 A. I am responsible for the dispatching of the Company’s gas supply  
11 resources, storage facilities, and scheduling gas transmission pipeline  
12 capacity. Additionally, gas resource planning and gas storage field  
13 engineering support are included in my group.

14 **II. Purpose and Scope**

15 4. Q. What is the purpose of your rebuttal testimony?

16 A. The purpose of my testimony is to address Mr. Lounsberry’s conclusions  
17 stated in his direct testimony. Specifically, I provide information  
18 supporting the Company’s position respective to (1) Mr. Lounsberry’s

19 incorrect general accusations/conclusions on the cyclical operations of gas  
20 storage facilities, (2) the incorrect finding of imprudence associated with  
21 the Company's short-term derate of its Shanghai Storage Field ("SSF",  
22 "Shanghai Field", or "Shanghai"), (3) the safe, reliable, and efficient  
23 operations of the Company's gas storage field facilities, and (4)  
24 information resulting from the "Hillsboro Incident", defined by Mr.  
25 Lounsberry as the explosion which happened at the Hillsboro Storage  
26 Field ("HSF", "Hillsboro Field", or "Hillsboro") on December 16, 2000.

27 5. Q. In addition to your rebuttal testimony in IP Exhibit 3.3, questions 1  
28 through 54 inclusive, are you sponsoring any other exhibits?

29 A. Yes. IP Exhibits 3.4 and 3.5 were prepared under my supervision and  
30 direction.

31 **III. General Concern over Storage Operations**

32 6. Q. Are there questions or concerns you would like to address regarding  
33 Illinois Power's gas storage characteristics and operational attributes?

34 A. Yes. I have concerns that Mr. Lounsberry has made some general  
35 accusations and conclusions surrounding the Company's gas storage  
36 facilities and operations.

37 7. Q. What specific concerns are you referring to?

38 A. For example, Mr. Lounsberry seems to imply that the Company should be  
39 able to identify certain characteristics, immediately address a situation and  
40 immediately verify any results from actions taken. As an example, Mr.

41 Lounsberry's theorizes that the Company would not have had to derate the  
42 Shanghai field if "lost" (Mr. Lounsberry's word) gas associated with a  
43 metering error, identified by the Company, would have been re-injected  
44 immediately. Mr. Lounsberry's implies everything would have been  
45 resolved after the gas was replaced, when in fact until actual results were  
46 verified through an additional withdrawal season the Company could not  
47 have known if anything had been corrected.

48 8. Q. Why would Mr. Lounsberry's assumption be incorrect?

49 A. The Company has two types of gas storage field facilities (a) dry gas and  
50 (b) aquifers. The operational characteristics of an aquifer field are  
51 substantially different as Mr. Hower explains in his testimony in this  
52 proceeding (IP Exhibit 5.0). His testimony focuses on technical issues.  
53 Mr. Lounsberry's assumption regarding the Company's ability to identify,  
54 fix and verify deliverability issues at its aquifer fields is incorrect. Due to  
55 the cyclical nature of the water drive associated with aquifers (the influx  
56 and efflux that Mr. Hower talks about in his testimony), in most instances it  
57 will take a minimum one to two years to positively identify a  
58 characteristic, address that issue if necessary and verify the results of any  
59 fix.

60 9. Q. In the case of aquifer storage, would IP make any decision regarding  
61 deliverability within a one-year time period?

62 A. In most instances, by the pure nature of aquifer fields, and based on  
63 different injection and withdrawal scenarios such as base loading  
64 injections as opposed to end loading injections for example, one year's  
65 results are not sufficient evidence to alter deliverability ratings.

66 10. Q. Other than inject/withdrawal scenarios, are there any other variables that  
67 may affect the Company's ability to diagnose, correct and verify any  
68 changes in its aquifers characteristics?

69 A. Yes. Weather and consumption, or lack thereof, will have substantial  
70 impact on the Company's ability to diagnose, correct and verify any  
71 changes based on the fact that IP's aquifer storage serves a "captive" load.  
72 Particularly in the case of Shanghai, if the Company and its customers are  
73 not experiencing a normal to severe winter season, the load the Shanghai  
74 Field serves will not be adequate enough to fully test any changes made at  
75 the field during the prior period. Unlike some other specific gas storage  
76 fields, and the areas they serve, the load cannot be created to test the field.

77 11. Q. Is it your opinion that for a decision to be deemed "prudent", as that term  
78 is defined by the Commission, the decision must be made within the  
79 appropriate time frame?

80 A. Yes, but I do not believe a "prudent" time frame is necessarily one year or  
81 less in the case of the aquifer storage fields due to the cyclical nature, the  
82 unknown characteristics, the influx and efflux of water, etc.

**IV. Shanghai Storage Field De-Rate**

83

84 12. Q. Was the de-rating of the Shanghai field in 2001 a prudent and timely  
85 decision?

86 A. Yes, based on several prior years' performance, even though well  
87 enhancements and well treatments had been (and will be) performed,  
88 Illinois Power could not have prudently begun the winter season of 2000-  
89 01 knowing that the deliverability of Shanghai was in question. It is  
90 Illinois Power's obligation by Commission standards to provide firm  
91 service to our PGA (i.e., non-transport) customers. Based on current load  
92 projections for the area that Shanghai serves, Illinois Power did not  
93 believe we could serve firm customers on a most severe peak day without  
94 incurring overrun penalties (if the gas was even available). The alternative  
95 was potentially NOT being able to meet firm load demand due to the fact  
96 we did not feel that Shanghai would perform at levels close to its  
97 maximum rated deliverability.

98 13. Q. Did Illinois Power make the decision to de-rate Shanghai with significant  
99 justification?

100 A. Yes. In the past several years, Illinois Power has seen several  
101 degradations to the Shanghai field. These include but are not limited to  
102 the sanding of the F-5 A well and the scaling in perforations at other wells.  
103 These problems either have been corrected or will be corrected in 2002,  
104 but how they reflect on deliverability has not been completely verified

105 using actual data. The actual operating data for peak condition after the  
106 corrections does not exist since we have not experienced the weather or  
107 the load levels that would be expected in a most severe peak year.  
108 Therefore, Illinois Power had little choice, in its opinion based on the  
109 information available at the time, but to de-rate the field in order to assure  
110 the Company could meet its obligations to its firm customers.

111 14. Q. Mr. Lounsberry states that IP has been reactive and not proactive  
112 regarding its storage fields. Do you believe that Illinois Power has been  
113 proactive in identifying problems and taking corrective action in regards to  
114 its Shanghai Storage Field?

115 A. Yes, Illinois Power has been proactive in identifying and correcting  
116 problems at the Shanghai Field. In order to ensure deliverability and  
117 avoid problems, IP has initiated numerous projects to circumvent potential  
118 problems while trying to ensure the maximum deliverability ratings. The  
119 projects are part of an ongoing program at Shanghai and date back several  
120 years. Some examples of projects include (1) repairing of casing leaks, (2)  
121 re-perforations of the wells at Shanghai in the mid 90's, (3) chemical  
122 treatment of wells, (4) continuation of semi-annual well logging program  
123 for inventory verification, (5) 2-D seismic survey and interpretation, (6)  
124 upgrades to the plant control systems, and (7) reservoir modeling. Illinois  
125 Power will continue to proactively correct and verify corrections and

126 remediation, all within the context of the storage operations cycle  
127 described earlier in my testimony.

128 15. Q. Could you provide a timeline of specific enhancements and studies that IP  
129 has performed that depicts that Illinois Power is being proactive in its  
130 monitoring and verification process?

131 A. The timeline for Shanghai specific projects is as follows:

132 **1993**

133 Reperforated 3 wells at Shanghai

134 Began development of reservoir simulator model

135 **1994**

136 Casing Leak Repair

137 Addition of Charcoal Filters

138 Moved Overhead Wires – Moberg # 1

139 **1995**

140 Control System Upgrade

141 **1996**

142 Vertical Seismic Profile

143 Replace Dump Valves at 8 Wells at Shanghai

144 Replace Re-Boiler and added Thermal Oxidizer

145 **1997**

146 Leakage Study

147 **1998**



148 Installed Gas Scrubber

149 1999

150 2-D Seismic

151 2000

152 Peak Day Study Review

153 2001

154 Well Treatments

155 2002

156 Deliverability Enhancement Treatments

157 Sand Fix F-5-A

158 In addition to these specific projects, Illinois Power runs Neutron Logs at

159 Shanghai both in the spring after the withdrawal season and also in the fall

160 after the injection season.

161 16. Q. Do you believe the sole reason that IP experienced deliverability problems  
162 and ultimately the de-rating of the field was due to the incorrect inventory  
163 levels that occurred during the 1995-2001 time period?

164 A. No. Even though the inventory level was incorrect during these years, the  
165 corrected inventory levels were such that the field would have been  
166 adequate to allow peak day deliverability had this been the only concern at  
167 the field.

168 17. Q. Has Illinois Power ever had a total inventory less than what it now holds?

169           A.     Yes. In the late 1980's, in four consecutive years, Illinois Power only had  
170                   total inventory in the field of 10 BCF, (11.3%) less than the 2001  
171                   inventory of 11.3 BCF and did not experience deliverability problems.

172       18.   Q.     Mr. Lounsberry mentions at page 8 beginning at line 155, that IP uses  
173                   various methods to verify its inventory at its storage fields, please explain.

174           A.     The methods that Illinois Power uses to verify inventory at its aquifer  
175                   fields include neutron logging in the spring after the withdrawal cycle is  
176                   complete, and also in the fall after the injection cycle is completed.  
177                   Illinois Power also performs peak day and hourly testing at peak rates at  
178                   specific inventory levels, well pressure monitoring on a daily basis as well  
179                   as seasonal through the monitoring wells, daily inject and withdraw  
180                   volume monitoring both from a storage level and daily validation from the  
181                   load summary and forecast. Illinois Power has also performed 2-D  
182                   seismic survey to assist in monitoring and field characteristic verification.  
183                   Illinois Power is currently in the process of developing reservoir modeling  
184                   at the Shanghai facility. Illinois Power also monitors and limits hourly  
185                   and daily "drawdown pressures" of the aquifer fields.

186       19.   Q.     In general what does each of these methods provide in the inventory  
187                   verification process?

188           A.     In general, neutron logging, peak day testing, well pressure monitoring,  
189                   and volume monitoring, when utilized consistently on an annual basis,  
190                   provide inventory verification and operational guidance for the field. Mr.

191           Hower provides more detail regarding inventory verification and  
192           monitoring in his testimony.

193    20.    Q.    In Mr. Lounsberry's testimony, he discusses the use of hysteresis graphs  
194           as a tool to verify inventory. He states that IP does not use this tool in its  
195           current process of inventory verification. Mr. Lounsberry goes on to state  
196           in lines 254-257, "Had IP made use of this important diagnostic tool, it  
197           could have identified problems at the Shanghai storage field much sooner  
198           and without incurring the need to...", do you agree with Mr. Lounsberry's  
199           statements about hysteresis graphs and his conclusion in regard to IP  
200           identifying the problems at Shanghai?

201           A.    I believe that hysteresis graphs are another tool to monitor and verify  
202           inventory. Illinois Power already uses many tools to provide the function  
203           of inventory verification. As Mr. Hower explains in more detail, the same  
204           data that would be in a hysteresis plot is utilized by IP in other graphic  
205           representations, specifically volume-time plots. In the case of Mr.  
206           Lounsberry's statement that had IP made use of this tool it would have  
207           only provided the same results as IP has seen with other inventory  
208           verification methods. In fact, since the incorrect inventory levels were not  
209           recognized until 2000, the data IP would have used to make these plots  
210           would have been incorrect and only shown an incorrect plot, sort of the  
211           theory of "garbage in – garbage out."

212 21. Q. Could you describe the metering error that occurred at the Shanghai field  
213 between the years 1995-2000?

214 A. The metering error at the Shanghai field during those years was due to the  
215 wrong K-factor constant being used in the gear ratios of the turbine meters  
216 on both the inject and withdraw metering. This resulted in undermetering  
217 of the gas withdrawn and over metering of the gas injected. The metering  
218 error existed since the control upgrade at the Shanghai field in 1995. Mr.  
219 Lounsberry refers to this as "lost" gas, however, the Company would  
220 classify it as misaccounted for gas. The gas was used by customers.

221 22. Q. Why and when was the metering error detected at the Shanghai field?

222 A. After the season of 1998-1999 in a winter operations review meeting,  
223 Illinois Power decided to initiate a review of all storage fields for accuracy  
224 and deliverability to address certain issues that had been noticed in the  
225 prior winter. One of the items to check for accuracy included the metering  
226 at all the storage fields. Since the aquifers (i.e. Hillsboro and Shanghai  
227 storage fields) are the largest plants, they were checked first. As noted in  
228 Mr. Lounsberry's testimony, an orifice problem was discovered at  
229 Hillsboro. When the Shanghai metering was checked, it was noted that  
230 the incorrect K-factor had been in place since the control upgrade in 1995.  
231 The metering error at Shanghai was in the computer settings, not actually  
232 in the turbine meters.

233 23. Q. Were there any other significant factors related to the metering error at  
234 Shanghai that would have hidden the metering error in terms of inventory  
235 verification?

236 A. Yes. A casing leak at the Moberg #1 well had been detected in the early  
237 90's. The amount of suspected leakage was approximately 661,000 Mcf.  
238 During the time period of 1995-1999, the same time the metering error  
239 occurred, the Company was injecting additional gas to make up for the  
240 gas lost due to the casing leak. The amount of gas, 661,000 Mcf. was  
241 close to the amount of net gas due to the metering error, therefore, it  
242 would be very difficult to detect the metering error.

243 24. Q. Mr. Lounsberry implies that IP's answers to data requests relating to how  
244 IP became aware of the error at Shanghai are inconsistent with  
245 information he received verbally on June 11, 2002. Do you feel there are  
246 any discrepancies in the data that Mr. Lounsberry received both verbally  
247 and in data requests regarding the explanation of how IP became aware of  
248 the metering error at Shanghai?

249 A. No, I do not. In DR 2.168 Mr. Lounsberry specifically asks for how the  
250 Company became aware of the inventory problem at Shanghai. IP  
251 responded specifically about Shanghai but did not include the additional  
252 information concerning why all storage field metering was being checked.  
253 In the verbal data that he received, the IP employee simply expounded on  
254 the fact that all metering was being checked and that a problem with the

255 orifice metering at Hillsboro was identified. IP did not check the metering  
256 at Shanghai due to finding a problem with orifice metering at Hillsboro  
257 because Shanghai does not utilize orifice type metering, it has turbine  
258 metering. The metering error led directly to discovering the inventory  
259 problem.

260 25. Q. Mr. Lounsberry also states that he received conflicting information  
261 regarding detection of gas in monitoring wells at the Shanghai field. Is  
262 this accurate?

263 A. No, it is not. Mr. Lounsberry specifically asked two questions in DR  
264 2.170. which states "Is it correct that the observation wells at the  
265 Shanghai Field will show or detect natural gas when the field is  
266 completely filled prior to the start of the withdrawal season? Provide the  
267 years that the observation wells did not show or detect natural gas at  
268 Shanghai at the start of the withdrawal season prior to January 2000. If  
269 gas was not detected or observed, then explain what, if any, inquiries were  
270 made as a result." The correct answer is the one provided, that there were  
271 no years that gas was not detected in the monitoring wells. What the IP  
272 employee told Mr. Lounsberry in his June 11<sup>th</sup> visit was that in the prior  
273 years, the wells had not "gone to gas". Perhaps there is a difference in  
274 understanding of terms between IP and Mr. Lounsberry. When IP refers  
275 to a well, "going to gas", IP's definition is that there is a much higher gas  
276 saturation at the well head. At that time, IP valves the well off so we are

277 not venting gas to the atmosphere, and continues to monitor the pressure at  
278 the well. The fact of the matter is, whether you detect gas at the  
279 monitoring wells or not, it is not indicative of having a deliverability  
280 problem.

281 26. Q. Was IP prudent in its timing of the replacement of the misaccounted for  
282 gas associated with the metering error at Shanghai?

283 A. Yes. Based on historical seasonal load patterns (more gas remaining at the  
284 end of the withdrawal season than the demand in the area would be  
285 anywhere from 1-1.8 BCF), IP did not immediately see the purpose of  
286 injecting additional gas which would not be able to be retrieved based on  
287 limited demand. Unnecessary injection of unrecoverable gas ultimately  
288 results in a higher cost to our customers.

289 27. Q. Were the Company's actions around the issues of deliverability and  
290 ultimately de-rating of the Shanghai field prudent?

291 A. Yes. The conclusions that Mr. Lounsberry uses to support his position of  
292 imprudence are not valid based on the testimony and exhibits Mr. Hower  
293 and I have provided in our rebuttal testimonies. The monitoring and  
294 verification processes, the projects and enhancements, historical operating  
295 characteristics, and the obligation to serve firm customer demand all  
296 substantiate the prudent and ethical decision to de-rate the Shanghai field.  
297 Since the facts do not support Mr. Lounsberry's conjecture, his

298 conclusions must be based on his opinions, which are insufficient under  
299 the Commission's definition of prudence and imprudence.

300 28. Q. Do you agree with the disallowance proposed by Mr. Lounsberry?

301 A. No. Illinois Power acted in a safe, reliable, and prudent manner in regard  
302 to the Shanghai Storage Field derate and there should not be any  
303 disallowance.

304 **V. IP's Commitment to Storage**

305 29. Q. Do you agree with Mr. Lounsberry's statements throughout his testimony  
306 that the Company is not operating its storage in a safe, reliable and  
307 efficient manner?

308 A. No, Illinois Power is committed to both operational and financial support  
309 of its assets. Historical financial expenditures and historical operating  
310 practices along with the plans and expectations IP has for the future at its  
311 storage fields prove that Illinois Power operates its storage fields in a safe,  
312 reliable and efficient manner. In fact, based on the evidence one could  
313 assert our safety, reliability, and efficiency is above the standard.

314 30. Q. Please describe the projects and enhancements IP has made from 1994 to  
315 2001 at its storage fields.

316 A. The projects and enhancements that IP has made at its storage fields are  
317 listed by calendar year along with a brief description in Exhibit 3.4.

318 31. Q. Please describe any future plans IP has regarding storage safety and  
319 reliability.



320           A.     Before providing specific plans, generally, Illinois Power's plan for  
321                   storage in the future is to continue to support its storage deliverability  
322                   and improve its ability to understand and diagnose potential problems  
323                   with its storage fields. The current plans for the future include  
324                   (1) continuing to improve the reservoir modeling at Hillsboro and  
325                   Shanghai, (2) performing chemical well treatments at Shanghai  
326                   and Hillsboro, (3) gravel-pack sand fix of wells F-5-A and Snyder #2,  
327                   (4) installation of downhole safety valves, (5) continuation of neutron  
328                   logging, and (6) planned upgrades of mechanical equipment.

329    32.    Q.     With respect to safety and reliability in particular does IP agree  
330                   with Mr. Lounsberry's assessment?

331           A.     No. Before getting in to details of Mr. Lounsberry's testimony, I want to  
332                   point out that the first and foremost reason that Illinois Power decided to  
333                   retire the Freeburg Propane Plant was safety and reliability which, the  
334                   Commission agreed was a concern, although Staff thought the savings to  
335                   not retire the plant, outweighed the safety and reliability concern at that  
336                   time.  
337                   Turning to the statements in Mr. Lounsberry's testimony, I would like to  
338                   make several observations. First, to address the issue of safety in our  
339                   storage fields, Illinois Powers' storage fields have an excellent record of  
340                   safety. In fact, in the last ten years, Illinois Power has had only 3 lost time  
341                   accidents at the fields, and in the last four years there have been 0 lost time

342 accidents. In 2001, the storage field personnel achieved the highest safety  
343 rating at Illinois Power by receiving the "Chairman's Safety Award." This  
344 is an impeccable record with 17 employees over a ten year time period.

345 One of Illinois Power's goals is to promote safety throughout the  
346 Company. In this context, the storage field operators have also had  
347 extensive training in several areas of safety including but not limited to,  
348 mandatory CPR training, first aid training, operator qualification program  
349 and fire safety training. In addition, to the best of my knowledge, Illinois  
350 Power has never had an incident which involved the public safety at any  
351 of its gas storage facilities.

352 Second, I disagree with Mr. Lounsberry's concern that the reduction in  
353 manpower levels at the storage fields contributes to the lack of safe,  
354 reliable, and efficient operations of the fields.

355 In 1995, Illinois Power adopted a manpower plan that instituted a self-  
356 directed work team philosophy. Though this plan included a reduction in  
357 supervisory positions, it also at the same time, upgraded one of the  
358 operator's positions at each field, which had previously had an assigned  
359 supervisor, to a foreman's position. In conjunction with this manpower  
360 plan, the operators, who have more than 200 years of gas storage service  
361 combined, have increased their level of expertise through various methods  
362 of education. Those methods of education include:

363 Appalachian Gas Measurement Course

364 Fisher Control and Regulator School  
365 Coastal Dehydration Seminar  
366 Purdue Corrosion Short Course  
367 G. E. Fanuc PLC Programming Course  
368 Electrical Maintenance Seminars  
369 MEA Gas Operations Conference  
370 Fire Fighting School – Nigas  
371 Dresser Rand Compressor School  
372 American Welding Conferences  
373 Annual Best Practices Meeting  
374 DOT 192/ICC Seminars  
375 Apprentice Training Program  
376 On-Site training for Valve Maintenance

377 33. Q. Can you explain the concept of a self-directed work team?

378 A. Yes I can. A self-directed work team is a group of individuals that  
379 have the same duties and responsibilities as everyone else in the group.  
380 The group of individuals is the “owners” over the processes and functions  
381 that they perform and the group is considered the “owner” of the  
382 process/asset. They also have the responsibility and accountability over  
383 their processes. In the case of the storage fields, each field has a team.  
384 That team is responsible and accountable for the functions that are  
385 performed at the field. It basically goes back to the old adage that two

386 heads are better than one or in this case 3 or more heads are better than  
387 one. Instead of a dedicated supervisor telling the workers what to do, a  
388 self-directed team works together to identify and develop processes and  
389 functions necessary to provide safe, reliable service from the fields. The  
390 teams are supported by technical experts from central staff.

391 34. Q. Does this mean there is no supervisor at the storage fields?

392 A. No, we still have one manager of storage that oversees all of the storage  
393 fields.

394 35. Q. What was the supervision level at the time the degradations and metering  
395 error occurred at Shanghai?

396 A. During the period 1995-2000, there was one supervisor and three  
397 operators responsible for the Shanghai field.

398 36. Q. Has the replacement of the supervision at the storage fields been a  
399 detriment to the operations of the fields?

400 A. No, the exact opposite of that conclusion is the case. With the operators  
401 completely responsible for the field, the fields are more reliable, safe and  
402 efficient. Also, with the electronic upgrades and utilization of advanced  
403 technology, it has allowed the operators to become more familiar and gain  
404 more expertise at operating the fields. Additionally, the overall  
405 supervision of gas storage facilities is still the responsibility of an  
406 individual that has been in a storage field supervisory position, with IP,  
407 since 1992.

408 37. Q. Does the self-directed work team at the field make the decisions regarding  
409 storage field inventories and deliverability?

410 A. No, the team does not. Illinois Power employs engineering experts in the  
411 field of storage and geology at its headquarters staff. The field operators  
412 have input based on the operations of the field and the data they provide,  
413 but the ultimate recommendations for decisions regarding inventory and  
414 deliverability are made by the technical staff and hired consultants. The  
415 self-directed teams work with their supervisor and central staff to identify  
416 recommendations regarding the fields.

417 38. Q. Has Illinois Power been satisfied with its self-directed work team plan?

418 A. Illinois Power has been more than satisfied with the self directed team  
419 concept. Management believes, and maybe more importantly the storage  
420 field personnel believe, that all storage field personnel play an important  
421 role in overseeing the storage fields. The facts in this case do not support  
422 Mr. Lounsberry's conclusion that the Company is not operating its gas  
423 storage fields in a safe, reliable and efficient manner. Indeed, our  
424 employees at the storage fields took offense at his aspersions to the  
425 contrary. Mr. Lounsberry should, at a minimum, retract his statements  
426 within the record of this proceeding.

427 39. Q. Would you please describe, in more detail, your response to Mr.  
428 Lounsberry's concern regarding reliability?

429           A.     Yes. The storage fields have never been unreliable. Although we have  
430                   changed the maximum rating of our two aquifers, no field has not  
431                   produced when asked to by our planning or dispatching groups. As a  
432                   matter of fact, some of our fields have even operated above the maximum  
433                   rating for short periods when the forecasted daily load exceeded the daily  
434                   forecast. As another example of reliability of storage, and the knowledge  
435                   of the operators, after the Hillsboro incident in December of 2000, the  
436                   other gas storage facilities increased their production to make up for the  
437                   lost production at Hillsboro. If the plants had not been reliable and  
438                   efficient, the plants would not have been able to absorb on no notice in the  
439                   middle of the winter the additional load put on them at the time of the  
440                   incident.

441                   In regard to storage reliability and forecasting, the storage fields are part  
442                   of the supply-planning portfolio for a most severe peak day. As a matter  
443                   of fact, the storage fields with two fields de-rated will provide  
444                   approximately 42% of our most severe peak day. If Illinois Power did not  
445                   believe the storage was safe and reliable, it would not plan on serving 42%  
446                   of the Company's peak day load with them.

447    40.    Q.     Do the storage fields operate in an efficient manner?

448           A.     Yes, I believe all of our storage fields operate in an efficient manner.  
449                   With the advanced technology available, Illinois Power has increased  
450                   efficiencies at our storage plants. Some of the efficiencies include the

451 improved automation and remote control of our control systems at the  
452 plants. All the plants, except Eden, have new control systems in place to  
453 make the plants more efficient in both their operation and the ability to  
454 monitor the plants. Besides the control upgrades at the plants, dispatchers  
455 in Decatur are now able to monitor the status and operations of the plant.  
456 Illinois Power has adopted a standardized set of operations software at  
457 operator's interface so, if needed, the operators could control any field, not  
458 just their assigned field.

459 41. Q. Has Illinois Power received any ICC non-compliance at its storage field's  
460 locations?

461 A. In the last ten years, Illinois Power's natural gas storage fields have  
462 received just one non-compliance. The one non-compliance at the  
463 Centralia field was relatively minor and has been fully corrected.

464 42. Q. Do you believe there have been cost efficiencies at the storage fields?

465 A. Yes. O & M expenses for the plants have basically remained at the same  
466 level for the past 10 years, even though the Company is continually  
467 enhancing and upgrading the fields, as noted above. Improved processes,  
468 lower cost of material and the reduction in the number of supervisors have  
469 nonetheless resulted in the same or greater direct O & M expenses being  
470 put into the storage assets.

**VI. Capital and O & M Expenditures**

471

472 43. Q. Mr. Lounsberry seems to imply in Exhibit 2.00 that Illinois Power is not  
473 spending enough capital dollars at its storage fields. Do you agree with  
474 Mr. Lounsberry's assumptions and conclusions?

475 A. No, I do not. Illinois Power continues to invest capital dollars, as deemed  
476 necessary, to support its gas storage fields. However, most of the  
477 enhancements and projects that have been done at the fields are O & M  
478 projects. Once again, since we have maintained virtually the same staff  
479 and are doing all the projects we are doing, obviously our storage plants  
480 operate in an efficient manner.

481 44. Q. To the best of your knowledge, did Mr. Lounsberry make any effort to  
482 find out about the accounting treatment for various projects and  
483 enhancements made at the storage fields?

484 A. With the exception of the new well at Hillsboro and the work by one  
485 contractor, Halliburton, Mr. Lounsberry did not ask anything about  
486 accounting treatment of other projects or enhancements. The Company  
487 believes the statement Mr. Lounsberry makes at line 588 of his direct  
488 testimony is another indirect "shot" at the Company to enhance Mr.  
489 Lounsberry's judgmental opinion of the Company's management of its  
490 storage operations.

491 45. Q. Do you know how the Company accounts for, either capital or O & M,  
492 projects and enhancements at the storage fields?



493 A. Yes. Exhibit 3.<sup>4</sup>~~3~~ lists the projects and enhancements that have been done  
494 at the storage fields. The list shows the year the project was done, the  
495 field where the project was done, a brief description of the project or  
496 enhancement, and the accounting treatment for that project, either capital  
497 of O & M.

498 46. Q. Do you agree with Mr. Lounsberry's conclusion that Illinois Power is  
499 being reactive and not proactive (lines 600-609, Exhibit 2.00)?

500 A. No, I do not. Illinois Power has an obligation to its PGA customers to  
501 provide the least cost gas supply and that the cost associated with that  
502 supply be prudently incurred. At the same time, Illinois Power has the  
503 responsibility to consider how its actions will affect its customers in other  
504 ways. There are some solutions to problems that may be more prudently  
505 solved by more than one method, the costs of which may for some of  
506 those methods be included in PGA costs and the costs of other methods of  
507 which may be included in base rates. The bottom line is that IP should  
508 strive to find the least cost method. Mr. Lounsberry does not address this  
509 balancing.

510 47. Q. Do you have any other statements with regards to Mr. Lounsberry's  
511 assumptions and conclusions about capital dollars?

512 A. Yes. Mr. Lounsberry uses the two highest years' budgeted dollars to  
513 compare with the two lowest years. As explained in data request Eng.  
514 2.171, the specific years, 1997 and 1998, were much larger due to specific

515 large budgeted projects to be performed. If you subtract the large  
516 budgeted items from those years, the capital budgeted dollars has  
517 remained fairly constant over the years (See IP Exhibit 3.5). Also, even if  
518 one were to merely look at the data Mr. Lounsberry cites, it become  
519 obvious that IP is proactive with regard to its fields: in three out of the last  
520 five years, IP spent more than its budget, when that was deemed  
521 necessary.

522 **VII. Hillsboro Incident**

523 48. Q. Mr. Lounsberry includes several pages of testimony in regards to the  
524 Hillsboro incident. Does he indicate the reason for submitting this  
525 testimony about an accident that occurred in 2000, in the reconciliation  
526 year of 2001?

527 A. Yes, Mr. Lounsberry included this issue at this time to try and substantiate  
528 his position that Illinois Power does not operate its storage fields in a safe,  
529 reliable and efficient manner.

530 49. Q. Do you agree that the Hillsboro incident provides that evidence?

531 A. No, quite the contrary, I believe the Hillsboro incident proves that Illinois  
532 Power does operate its facilities in a safe, reliable, and efficient manner.

533 50. Q. Can you explain how the incident proves Illinois Power's point?

534 A. Yes. Illinois Power is in a potentially dangerous and hazardous business  
535 on both the gas and electric side of the business and thus we face the risk  
536 of such occurrences. The fact is that the Hillsboro incident is a perfect

537 example of how the Company operates its storage fields in a safe, reliable  
538 and efficient manner. For example, the operator on duty was properly  
539 trained to assure the immediate and safe shutdown of the plant. The  
540 operator, based on his experience level and training, successfully put the  
541 plant in Emergency Shut Down ("ESD"). The ESD system at the field  
542 operated correctly. The public's safety was never compromised, in fact,  
543 there were no public emergency personnel needed, or called upon due to  
544 the incident. Additionally, within 48 hours, consulting engineers were on  
545 site to analyze the event and to determine the root cause of the incident.  
546 Also, within 48 hours, the plant operators had restored transfer capabilities  
547 between the north and south regions, a mechanism/process that helps the  
548 Company provide the lowest cost gas to its customers. Finally, within 5  
549 days, the operators had 65% deliverability from Hillsboro restored, and  
550 within 5 weeks the plant was restored to 100% deliverability.

551 51. Q. Though not in this reconciliation period, did the ICC ever issue any  
552 reports or citations regarding the Hillsboro incident?

553 A. Yes, the ICC issued a report in November of 2001, regarding the incident.  
554 However, no citations were issued by the Commission. The Company  
555 received through the ICC and its own consultants report seven  
556 engineering/operational recommendations. All of the recommendations  
557 have been implemented.

558                                **VIII. CONCLUSIONS**

559     52.     Q.     Do you believe that you have presented enough evidence to show that  
560                   Illinois Power's storage fields operate in a safe, reliable, and efficient  
561                   manner?

562             A.     Yes, I believe I have presented overwhelming evidence to show that our  
563                   storage fields operate in a safe, reliable, and efficient manner. At best, Mr.  
564                   Lounsberry presents limited and incomplete discussions on several topics.  
565                   At worst, Mr. Lounsberry has no evidence on which to base his  
566                   conjectures.

567     53.     Q.     Do you feel Illinois Power meets or exceeds Mr. Lounsberry's definition  
568                   of safe, reliable, and efficient as stated in Staff data request number 59?

569             A.     Yes. Data Request number 59, asked "Throughout Mr. Lounsberry's  
570                   testimony (ICC Staff Exhibit 2.00) he refers to IP being unable to operate  
571                   its storage in a safe, reliable, and efficient manner. What is Mr.  
572                   Lounsberry's definition of: a) Safe, b) Reliable, c) Efficient". Mr.  
573                   Lounsberry's response was "a) Safe – Keeping employees and the public  
574                   free from danger or harm. b) Reliable – Something that is trustworthy or  
575                   is dependable. c) Efficient – Producing an effect with the minimum  
576                   amount of waste or unnecessary effort." Based on my above testimony  
577                   and Mr. Hower's evidence, Illinois Power exceeds Mr. Lounsberry's  
578                   definitions.

579     54.     Q.     Does this conclude your testimony?

580           A.     No, I will conclude my testimony with a couple of observations. First, it  
581                 would seem to me that it would be more productive to engage in a  
582                 dialogue between Staff and the Company than to engage in a lengthy  
583                 analysis that is based on obvious misunderstandings and factual flaws built  
584                 in a vacuum. It is my hope that the parties can be more productive in each  
585                 other's quest to provide the level of service dictated by the Public Utilities  
586                 Act. Second, because we have not yet received full and complete  
587                 responses to data requests submitted to Staff, I may need to supplement  
588                 my rebuttal testimony when we receive those responses.